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10

11 UNITED STATES DISTRICT COURT
12 NORTHERN DISTRICT OF CALIFORNIA
13 SAN FRANCISCO DIVISION
14

15 PAYMENTONE CORPORATION,
a Delaware corporation,

16 Plaintiff,

17 v.

18 ZONG, INC.,
19 a Delaware corporation,

20 Defendants.
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22
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Case No.: 3:11-cv-02186-SI

**DEFENDANT ZONG, INC.'S CASE
MANAGEMENT STATEMENT**

FENWICK & WEST LLP
ATTORNEYS AT LAW
SAN FRANCISCO

Pursuant to the Court's November 4, 2011 notice setting initial case management conference, Defendant Zong, Inc. ("Zong") hereby submit the following Case Management Statement and Rule 26(f) Report. Zong is unable to submit a joint case management statement as Plaintiff PaymentOne Corporation ("PaymentOne") refuses to include its positions in a joint statement with Zong's positions. *See* Declaration of Carolyn Chang filed concurrently herewith.

I. JURISDICTION AND SERVICE

PaymentOne contends that this Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §§ 1331, 1338, and the Patent Laws of the United States, 35 U.S.C. § 1, *et seq.* The parties agree that venue is proper in this district and that the Court has personal jurisdiction over the parties.

II. FACTS

A. Proceedings

PaymentOne filed this case on May 4, 2011, seeking damages, injunctive and other relief, alleging Zong's willful direct or indirect infringement of U.S. Patent No. 7,080,049 (the "'049 patent"), U.S. Patent No. 7,848,500 (the "'500 patent"), U.S. Patent No. 7,848,504 (the "'504 patent) (collectively, the "patents-in-suit" or "PaymentOne Patents"). PaymentOne served Zong with its Complaint on July 11, 2011, after eBay Inc. announced its intent to acquire Zong. Following stipulations to extend time, Zong responded to the Complaint on September 21, 2011, denying all allegations of infringement and asserting counterclaims for non-infringement and invalidity. eBay Inc.'s acquisition of Zong closed in August 2011.

This case was originally assigned to the Honorable Charles R. Breyer. The parties filed a Joint Case Management Statement with Judge Breyer on September 23, 2011 (Dkt. # 28). Thereafter, on October 24, 2011 PaymentOne served its Preliminary Infringement Contentions pursuant to Patent Local Rule 3-1, asserting that the Zong Web Payment service and the Zong+ service infringe the following claims:

- '049 patent: claims 8, 9, 22
- '500 patent: 1-6, 8-12, 17-22, 24-28
- '504 patent: 1, 10, 16, 20, 23, 28, 43, 45, 47, 52, 53, 56, 61, 101, 102, and 107

On October 26, 2011, Judge Breyer entered an order of recusal, at which point the case was reassigned to this Court. Based on the claims and counterclaims asserted in this matter, the principal factual issues are:

1. whether Zong has infringed and is infringing any of the asserted claims of the PaymentOne Patents;
2. whether Zong has actively induced and/or contributed to the infringement by others of any of the asserted claims of the PaymentOne Patents;
3. whether any such infringement by Zong is willful;
4. the amount of PaymentOne's damages, if any; and
5. the identification of any other relief, such as a permanent injunction, that is warranted for any such infringement by Zong;
6. the scope and content of the prior art;
7. whether PaymentOne's Patents are invalid.

Should facts be uncovered in this case that support amendment of pleadings to include claims and defenses relating to the enforceability of the patents-in-suit, this case may also require resolution of the enforceability of the patents-in-suit.

B. Zong's Description of the Case:¹

1. The Parties

a. Defendant Zong, Inc.

Defendant Zong was spun off in 2008 of Echovox, a mobile services company founded in Geneva, Switzerland in 2000. Zong used and continues to use Echovox's software components and servers in Switzerland, in part, to enable processing of online payments using a mobile telephone. Zong is now a leading provider of payments through mobile telephone carrier billing. In July 7, 2011, eBay Inc. announced that it would be acquiring Zong. eBay's acquisition of

¹ In addition, Zong believes that Morgan Lewis counsel for PaymentOne may have a disqualifying conflict of interest as it is currently representing eBay and other of its subsidiaries. Thus, Zong is evaluating whether Morgan Lewis' representation of PaymentOne adverse to the eBay warrants filing a motion to disqualify.

eBay is also currently evaluating whether potential claims against PaymentOne would support filing a separate action against PaymentOne.

1 Zong was completed in August 2011.

2 **b. Plaintiff PaymentOne Corporation**

3 Plaintiff PaymentOne Corporation was founded in 2000 as eBillit, a subsidiary of
 4 Intergretel (a company focused on telecommunications billing through agreements with landline
 5 local exchange carriers). PaymentOne's first payment platform launched in or before 2000 was
 6 directed to payment for Internet services through local landline – not mobile – telephone bills. In
 7 December 2008, PaymentOne was referring customers interested in mobile payment processing
 8 to Zong as it did not offer any mobile payment services. As of Fall 2009, PaymentOne still did
 9 not offer payment processing using mobile telephones. As the business of billing landline phones
 10 has dried up, PaymentOne is venturing into the mobile payment space. In doing so, it is taking its
 11 patents, which describe billing landline telephone numbers, impermissibly stretching them and
 12 asserting them against the business of billing mobile phone numbers.

13 **2. Zong's Summary of the Patents-in-Suit**

14 The purported inventions of the patents-in-suit relate to billing landline phones, in
 15 particular to paying for purchases by billing the landline to which a user's computer is connected.
 16 The '049 patent, entitled "Method and System for Processing a Transaction" describes paying for
 17 purchase transactions by charging the landline account instead of a debit or credit card. Paying
 18 for purchases using a landline account was known in the art, however. Therefore, the '049 patent
 19 claims were allowed only after the inclusion of limitations requiring the payment to be processed
 20 by other methods if the landline account is not validated. Similarly, the claims of the '500 patent
 21 were only allowed after they were amended to include the requirement that the payment
 22 transaction be completed using an alternate payment method if billing to the landline account is
 23 declined. The '504 patent, entitled "Method and Apparatus to Validate a Subscriber Line,"
 24 requires verifying that a landline account can be billed by looking up information associated with
 25 the billing telephone number in various databases. By asserting these patents against Zong,
 26 PaymentOne is simply and impermissibly stretching the purported inventions to the business of
 27 billing mobile phone numbers.
 28

3. The Accused Zong Services

The accused Zong Web Payment and Zong+ services do not process payments by billing a landline connected to a user's computer. The Zong services, using certain servers and software components in Switzerland, allow Internet users to use their mobile telephone number to process payment for online transactions. In practice, third party online merchants offer users a range of payment options including, *e.g.*, Visa or Master Card credit cards. If the user selects the mobile phone payment option, Zong will then provide a window in which the user can provide a mobile telephone number. Once the user inputs the mobile telephone number and hits continue, an SMS message with a PIN number will be sent to that mobile phone number. The user then inputs the PIN number into the next Zong payment window on their computer:



Zong then uses the mobile telephone number to facilitate the payment process. Zong does not facilitate a payment if a landline phone number is entered by a user. In addition, if payment cannot be made using the mobile phone number, Zong will not facilitate the payment process. Zong does not complete payment using another payment method if payment cannot be made using the mobile telephone number.

Since Zong does not process payments using a landline connected to the user's computer, does not complete payment transactions using alternative methods, and relies on certain servers and software components in Switzerland, it cannot infringe the patents-in-suit. If the Court addresses these issues early, the result would be case dispositive. Since summary judgment of non-infringement can be granted without claim construction, and the issues are potentially case dispositive, Zong respectfully requests a schedule that allows for an early case-dispositive motion for summary judgment of non-infringement. As discussed more fully in Section IV below, Zong

1 is aware of this Court's standing order limiting the number of summary judgment motions, but
 2 because an early summary judgment here may be case dispositive and can be decided without
 3 substantial discovery or claim construction, Zong believes an early summary judgment motion of
 4 non-infringement is appropriate and seeks leave to file a second summary judgment motion on
 5 other grounds in the unlikely event this case proceeds.

6 **III. LEGAL ISSUES**

7 Based on the claims and counterclaims asserted in this matter, the principal legal issues in
 8 this action are:

- 9 1. the construction of the claims of the patents-in-suit;
- 10 2. whether any infringement was willful, and if so, the amount of enhanced damages;
- 11 and
- 12 3. whether an injunction (or injunctions) should issue if any of the patents-in-suit are
- 13 found infringed.
- 14 4. whether PaymentOne's Patents are invalid.

15 Should facts be uncovered in this case that support amendment of pleadings to include
 16 claims and defenses relating to the enforceability of the patents-in-suit, this case may also require
 17 resolution of the enforceability of the patents-in-suit.

18 **IV. MOTIONS**

19 There are currently no pending motions.

20 **A. Zong's Position**

21 Zong believes this case can be disposed of efficiently and entirely with an early motion for
 22 summary judgment of non-infringement without the need for substantial discovery or claim
 23 construction. A case-dispositive early motion for summary judgment of non-infringement is
 24 warranted in this case for two simple reasons:

- 25 • **PaymentOne's Infringement Allegations Are Based on the Acts of Third**
- 26 **Parties, Not Zong:** PaymentOne does not even allege that Zong performs each
- 27 and every element of the asserted claims of the '049 and '500 patents. That is
- 28 because, among other things, Zong does not process payments using alternative

1 payment methods if a mobile phone number does not work as is required for
 2 infringement of the asserted claims. Therefore, PaymentOne resorts to alleging
 3 infringement based on the conduct of third parties over which Zong has no control.
 4 *See Muniauction, Inc. v. Thomson Corp.*, 532 F.3d 1318, 1329 (Fed. Cir. 2008).²
 5 Therefore, summary judgment of non-infringement can be granted as to the '049
 6 and '500 patents with little to no discovery or claim construction.

7 • **United States Patents Can Only Be Infringed In the United States:**

8 PaymentOne alleges infringement of all the asserted method claims of the patents-
 9 in-suit (including the '504 patent) based on conduct that takes place, in part,
 10 outside of the United States. Certain accused features of the Zong services are
 11 located (servers and databases) and performed (searching databases for mobile
 12 phone number and validating PIN numbers) in Geneva, Switzerland – where the
 13 company began and continues to operate. *See NTP, Inc. v. Research in Motion*,
 14 418 F.3d 1282, 1317-18 (Fed. Cir. 2005).

- 15 • Therefore, limited discovery regarding the location of Zong's servers will support
 16 summary judgment of non-infringement.

17 Zong is mindful of the Court's general rule limiting the number of summary judgments.
 18 As resolution of these two issues may resolve the entire case, however, allowing an early non-
 19 infringement summary judgment motion now (and reserving any other potential summary
 20 judgment motions in the unlikely event any issues remain) is far more efficient for the Court and
 21 the parties. Very limited discovery and no claim construction is required for Zong's proposed
 22 early summary judgment motion, and thus can be resolved with little expenditure of Court and
 23 party resources. In contrast, limiting Zong to one summary judgment motion on all issues would
 24 delay resolution until much later in the case, after the parties and the Court have spent significant
 25 additional resources on the case. This case can be decided and disposed of entirely now on non-
 26 infringement, obviating the need to spend time and effort on claim construction or invalidity,

27 ² The Federal Circuit has granted *en banc* review of the standard for infringement where no single
 28 actor performs all steps of a claimed invention. *See McKesson Techs. Inc. v. Epic Sys. Corp.*,
 2011 U.S. App. LEXIS 10674 (Fed. Cir. May 26, 2011).

1 damages, and expert discovery. In the unlikely event any issues remain following the early
 2 summary judgment motion, Zong does not wish to be foreclosed from disposing of this case on
 3 alternate grounds prior to trial. Zong therefore respectfully requests leave to file a second motion
 4 for summary judgment should the proposed early summary judgment motion fail to dispose of all
 5 the issues in the case.

6 Zong proposes a schedule whereby discovery relating to invalidity (including service of
 7 Patent Local Rule 3-3 invalidity contentions) and damages is postponed until after resolution of a
 8 motion for summary judgment of non-infringement to be filed by February 24, 2012. Zong will
 9 make its Patent Local Rule 3-4 production regarding operation of the accused Zong services on
 10 January 13, 2012.

11 **V. AMENDMENT OF PLEADINGS**

12 The pleadings have not been amended.

13 **VI. EVIDENCE PREPARATION**

14 Both parties have taken steps to preserve evidence relevant to the issues reasonably
 15 evident in this action. These steps include the suspension of normal document destruction
 16 programs, ongoing erasure of e-mails, voice-mails, and other electronically-recorded material,
 17 and the institution of a litigation hold for both hardcopy documents and electronic documents.

18 **VII. DISCLOSURES**

19 The parties served initial disclosures pursuant to Federal Rule 26(a)(1) on October 5,
 20 2011. On October 24, 2011, under the previously agreed upon schedule, PaymentOne served its
 21 Disclosure of Asserted Claims and Preliminary Infringement Contentions pursuant to Patent
 22 Local Rule 3-1. The parties reserve their right to supplement disclosures as discovery continues.

23 **VIII. DISCOVERY**

24 The parties have already begun discovery pursuant to the Federal Rules of Civil
 25 Procedure. The parties reserve all rights to seek modifications of such limits and agree to confer
 26 in good faith if a need arises for additional discovery.

27 The parties agree to the following discovery plan:

- 28 1. Discovery Needed –

- a. Discovery relating to the operation of the accused products or services.
- b. Discovery relating to PaymentOne's claim for damages.
- c. Discovery relating to PaymentOne's claim that the alleged infringement of any patent-in-suit was willful.
- d. Discovery relating to the validity of the patents-in-suit.

Should facts be uncovered in this case that support amendment of pleadings to include claims and defenses relating to the enforceability of the patents-in-suit, this case may also require discovery relating to enforceability of the patents-in-suit.

2. Interrogatories – The parties agree that each side be allowed to serve a maximum of 25 interrogatories on the other side.
3. Depositions – The parties agree that the Federal Rules of Civil Procedure will govern depositions.
4. Requests for Admission and for Documents – The parties agree that there should be no limits on requests for admissions or document discovery requests.
5. Electronic Service – The parties agree to accept service by e-mail with hard copies to follow by overnight mail. Each counsel will establish an e-mail distribution list accessible through a single external e-mail address. The parties will separately send an e-mail without attachments confirming service of any e-mail sent with attachments. Service by e-mail will be treated as service by hand delivery.
6. Stipulated Protective Order – The parties agree that a stipulated protective order will be required and shall endeavor to submit an order by December 23, 2011.
7. The parties agree that an agreement regarding electronically stored information (“ESI”) is important to the management of this case and will endeavor to enter into an agreement regarding the scope and timing of ESI discovery or provide proposals to this Court in the event the parties are not able to reach agreement.
8. Discovery of Drafts of Expert Declaration – The parties agree that the protections provided in Fed. R. Civ. Pro. 26(b)(4)(B) and (C) will equally apply to expert declarations as they do to expert reports, including both drafts of declarations and

communications related to declarations.

The parties agree to revisit these limits on discovery as may be appropriate.

IX. CLASS ACTIONS

This is not a class action.

X. RELATED CASES

The parties are not aware of any other related cases pending before another judge of this Court or before another court or administrative body.

XI. RELIEF

As PaymentOne refuses to submit a case management statement jointly with Zong, Zong is unable to represent PaymentOne's position. Based on the parties' previous joint case management statement, however, it is Zong's understanding that PaymentOne seeks a judgment (a) that Zong has infringed, actively induced infringement of, and/or contributorily infringed the PaymentOne Patents; (b) preliminarily and permanently enjoining Zong, its officers, agents, servants, employees, attorneys and all persons in active concert or participation with it from further infringement of the PaymentOne Patents, to the extent not so enjoined, ordering Zong to pay compulsory ongoing royalties for any continuing infringement of the PaymentOne Patents; (c) ordering that Zong account, and pay actual damages (but no less than a reasonable royalty), to PaymentOne for Zong's infringement of the PaymentOne Patents; (d) declaring that Zong willfully infringed the PaymentOne Patents and ordering that Zong pay treble damages to PaymentOne as provided by 35 U.S.C. § 284; (e) ordering that Zong pay PaymentOne's costs, expenses, and interest, including prejudgment interest, as provided for by 35 U.S.C. § 284; (f) declaring that this is an exceptional case and awarding PaymentOne its attorneys' fees and expenses as provided for by 35 U.S.C. § 285; (g) granting PaymentOne such other and further relief as the Court deems just and appropriate, or that PaymentOne may be entitled to as a matter of law or equity; and (h) such other relief as PaymentOne shall timely request in response to Zong's forthcoming pleadings.

Zong seeks a judgment that (1) Zong does not directly or indirectly infringe the PaymentOne Patents; (2) the PaymentOne Patents are invalid; (3) the PaymentOne takes nothing

by its Complaint; (4) this case be declared exceptional and Zong be awarded its attorneys' fees and costs; and (5) Zong be granted such other as the Court deems just and appropriate.

XII. SETTLEMENT AND ADR

The parties have met and conferred regarding the ADR process, and agree that the prospects for settlement would be best served by private mediation to address all current disputes between the parties. The parties previously agreed to private mediation by February 29, 2012.

XIII. CONSENT TO A MAGISTRATE

The parties do not consent to a Magistrate Judge for all purposes.

XIV. OTHER REFERENCES

N/A

XV. NARROWING OF ISSUES

Zong has outlined its position above, that an early motion for summary judgment of non-infringement may be case-dispositive or narrow issues for trial.

XVI. EXPEDITED TRIAL PROCEDURE

The parties do not believe that this case is appropriate for an expedited schedule.

XVII. SCHEDULING

A. Zong's Proposed Schedule

To facilitate Zong's proposed early case-dispositive motion for summary judgment of non-infringement, Zong proposes the following case schedule. This schedule allows the Court and the parties to avoid the expense and effort of engaging in claim construction and discovery on invalidity, damages, and expert disclosures should Zong prevail on the early motion for summary of non-infringement.

Fed. R. Civ. P. 26(a)(1) Disclosures	completed on October 5, 2011
Patent L.R. 3-1 Preliminary Infringement Contentions and Patent L.R. 3-2 Document Production	completed October 24, 2011
Case Management Conference	December 9, 2011

1	Patent L.R. 3-4 (operation of accused device) Document Production	January 13, 2012
2		
3	Zong to file early limited motion for summary judgment of non-infringement	February 24, 2012
4	PaymentOne to respond to motion for summary judgment of non-infringement	March 9, 2012
5		
6	Zong to file reply to motion for summary judgment of non-infringement	March 16, 2012
7	Hearing on Motion for Summary Judgment	March 30, 2012
8		
9	IF CASE NOT RESOLVED BY SUMMARY JUDGMENT	
10	Patent L.R. 3-3 Preliminary Invalidity Contentions	April 13, 2012
11	Patent L.R. 4-1 Exchange of Proposed Terms	April 27, 2012
12		
13	Patent L.R. 4-2 Exchange of Preliminary Claim Constructions	May 18, 2012
14	Patent L.R. 4-3 Joint Claim Construction and Prehearing Statement	June 12, 2012
15		
16	Patent L.R. 4-4 Close of Claim Construction Discovery	July 12, 2012
17		
18	Patent L.R. 4-5(a) Opening Claim Construction Brief	July 27, 2012
19	Patent L.R. 4-5(b) Responsive Claim Construction Brief	August 10, 2012
20		
21	Patent L.R. 4-5(c) Reply Claim Construction Brief	August 17, 2012
22		
23	Tutorial	August 29, 2012
24	Claim Construction Hearing	August 31, 2012
25		
26	Fact Discovery Cut-off	30 weeks after Claim Construction Order
27	Disclosure of Identity of Liability Experts	33 weeks after Claim Construction Order
28		

1	Opening Expert Reports Due on any issue for which a party bears the burden of proof	36 weeks after Claim Construction Order
2		
3	Rebuttal Expert Reports Due	41 weeks after Claim Construction Order
4	Expert Discovery Cut-off	45 weeks after Claim Construction Order
5		
6	Deadline for Filing Dispositive Motions	50 weeks after Claim Construction Order
7	Pretrial Conference	Fall 2013
8		
9	TRIAL	Fall 2013
10		

11 **XVIII. TRIAL**

12 PaymentOne has requested a jury trial on all issues triable to a jury. The length of the trial
13 will depend on the resolution on the parties' pre-trial motions and the ability to narrow the issues.

14 **XIX. DISCLOSURES OF NON-PARTY INTERESTED ENTITIES**

15 PaymentOne has filed its Certification of Interested Entities or Persons as required by
16 Civil Local Rule 3-16, listing the following persons, associations of persons, firms, partnerships,
17 corporations (including parent corporations) or other entities that (i) have a financial interest in
18 the subject matter in controversy or in a party to the proceeding, or (ii) have a nonfinancial
19 interest in that subject matter or in a party that could be substantially affected by the outcome of
20 this proceeding:

- 21 1. PaymentOne Corporation Share Trust, a Delaware statutory trust, has a financial
22 interest in PaymentOne Corporation;
- 23 2. AER Investments LLC, a Florida limited liability company, has a financial interest
24 in PaymentOne Corporation;
- 25 3. Mr. Joseph Lynam, an individual, has a financial interest in PaymentOne
26 Corporation.

27 Zong filed its Certification of Interested Entities or Persons with its response to the
28 Complaint, identifying eBay Inc. as an entity that has a financial interest in this case, as a result of

1 eBay's acquisition of Zong.

2 **XX. PATENT RELATED ISSUES PURSUANT TO PATENT LOCAL RULES**

3 Zong proposes postponing invalidity contention disclosures pursuant to Patent Local Rule
4 3-3 until after resolution of its early motion for summary judgment of non-infringement as
5 reflected in Zong's proposed schedule.

6 **A. Format of the Claim Construction Hearing**

7 The parties do not currently anticipate presenting live testimony at the Claim Construction
8 Hearing. If these positions were to change, the parties would seek the Court's approval to present
9 such evidence at the hearing.

10 The parties estimate the length of the Hearing will be approximately two hours.

11 **B. How the Parties Intend to Educate the Court on the Technology at Issue**

12 The parties anticipate the presentation of a technology tutorial

13 **XXI. COURT APPOINTED EXPERT**

14 It is Zong's understanding that the parties agree that a court-appointed expert under Rule
15 706 of the Federal Rules of Evidence is not warranted.

16 **XXII. COMPUTATION OF DAMAGES**

17 As PaymentOne refuses to submit a case management statement jointly with Zong, Zong
18 is unable to represent PaymentOne's position on computation of damages. The parties' previous
19 joint statement, however, included the following statement regarding PaymentOne's computation
20 of damages:

21 At this initial stage of the litigation, PaymentOne is unable to calculate its damages
22 because it has not yet received discovery revealing the full magnitude of Zong's infringing
23 activities, services, products and systems.

24 In general, however, PaymentOne's damages are likely to include, without limitation, (1)
25 compensatory damages for patent infringement by Zong and contributory and active inducement
26 of others' infringement, consisting at a minimum of a reasonable royalty or lost profits on sales of
27 infringing products; (2) treble damages for willful patent infringement; (3) costs incurred in this
28 action; and (4) interest on all damages awarded and costs incurred in this action. Damages are

1 also likely to include, without limitation, attorneys' fees pursuant to 35 U.S.C. § 285.

2
3 Dated: December 2, 2011

FENWICK & WEST LLP

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5 By: s/ Carolyn Chang
Carolyn Chang

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7 Attorneys for Defendant
ZONG, INC.,
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